

Executive Summary of FASAB Standards 10 and 44
“Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use”

The Federal Accounting Standards Advisory Board published SFFAS 44 for the purpose of properly accounting for impairments of general property, plant, and equipment on agency financial statements. SFFAS 10 covers internal use software.

Scope and Applicability

SFFAS 44 establishes guidance on accounting for impairment of general PP&E, excluding internal use software, but including construction work in process. SFFAS 10 establishes guidance on accounting for impairment of internal use software. The provisions of these statements are to be applied when indicators of potential impairment, as specified in the standards, are identified by the entity. **Impairments should be done for material items only and are not reversible, same as FAS 144.**

Definition of Impairment

Impairment is a significant and permanent decline in the service utility of general PP&E or expected service utility for construction work in process.

Identification of Impairment

Identifying impairment for all property except internal use software in development (IUSD) is a two step process:

1. Identifying impairment indicators, such as:
 - a. Evidence of physical damage,
 - b. Enactment or approval of laws and regulations which limit or restrict general PP&E usage,
 - c. Changes in environmental or economic factors,
 - d. Technological changes or evidence of obsolescence,
 - e. Changes in the manner or duration of use of general PP&E,
 - f. Construction stoppage or contract termination, and
 - g. General PP&E idled or unserviceable for excessive long periods.
2. Testing for impairment (*this applies to construction work in process also*):
 - a. The magnitude of the decline in service utility is significant,
 - b. The decline in service utility is expected to be permanent.

Identifying impairment for IUSD is a one step process:

1. Identifying impairment indicators, such as:
 - a. Expenditures are neither budgeted nor incurred for the project,
 - b. Programming difficulties cannot be resolved on a timely basis,
 - c. Major cost overruns occur,

- d. Information has been obtained indicating that the cost of developing the software will significantly exceed the cost of COTS software available from third party vendors; hence, management intends to obtain the product from those vendors instead of completing the project,
- e. Technologies that supersede the developing software product are introduced, and
- f. The responsibility unit for which the product was being created is being discontinued.

How are Impairments Identified?

Impairments are identified when an office conducts an asset management review of their capitalized inventory. Common indicators can include:

1. Condition assessments (physical damage or deterioration)
2. Functionality assessments (reduced capacity, change in mission, change in laws and regulations, environmental factors)
3. Obsolescence assessments (change in technology)

SFFAS 44 does not require agencies to conduct reviews or surveys for the sole purpose of identifying impairments. In other words, we should not be “hunting” for them.

Recognition and Reporting

The impairment loss should be recognized in the Statement of Net Cost. The impairment loss also needs to be noted, in detail, in the agency financial statement notes in the period in which the impairment occurred.

Flowchart and Decision Table

Pages 3 through 5 provide a flowchart and decision table that should help identify when an impairment is appropriate.

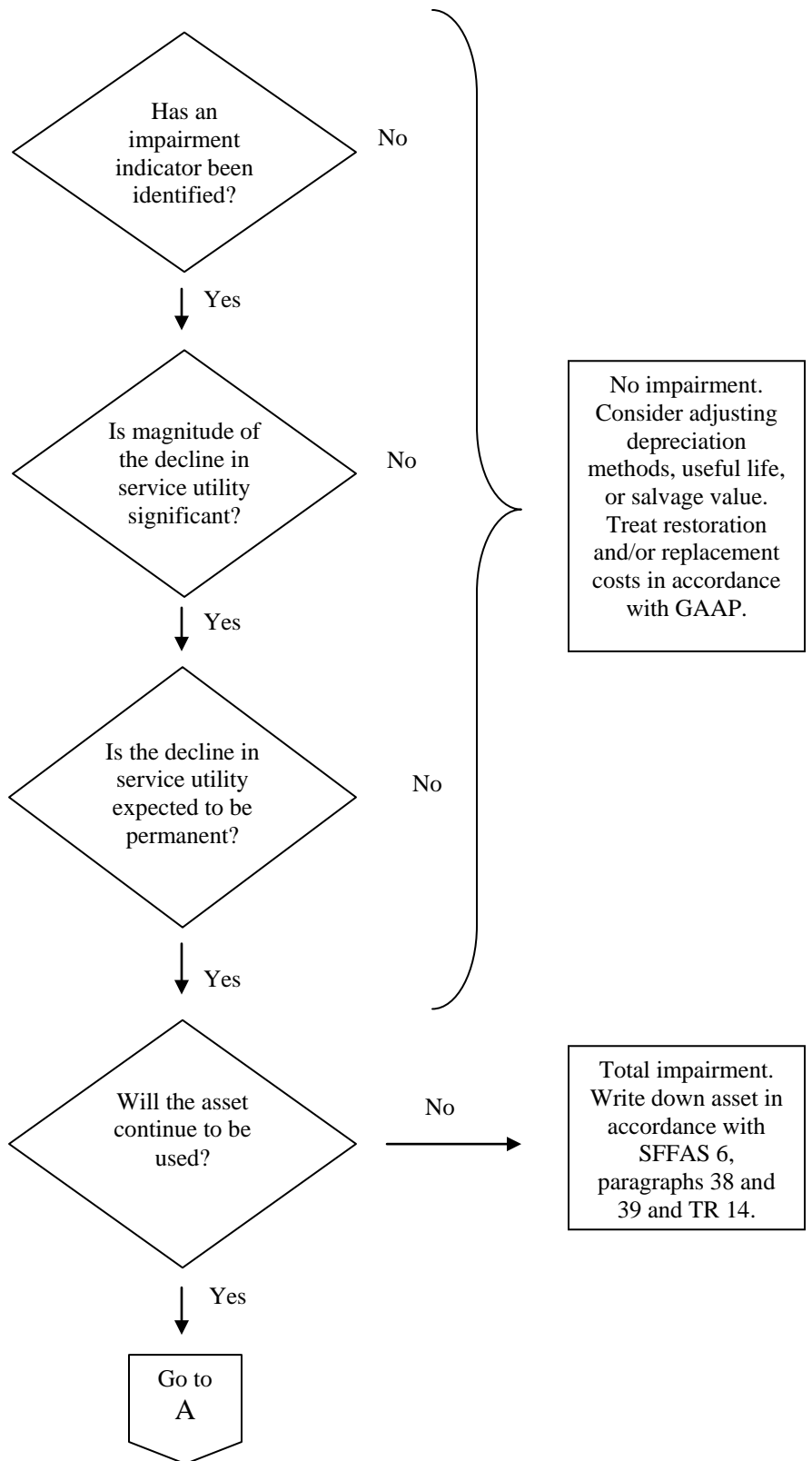
Illustrations

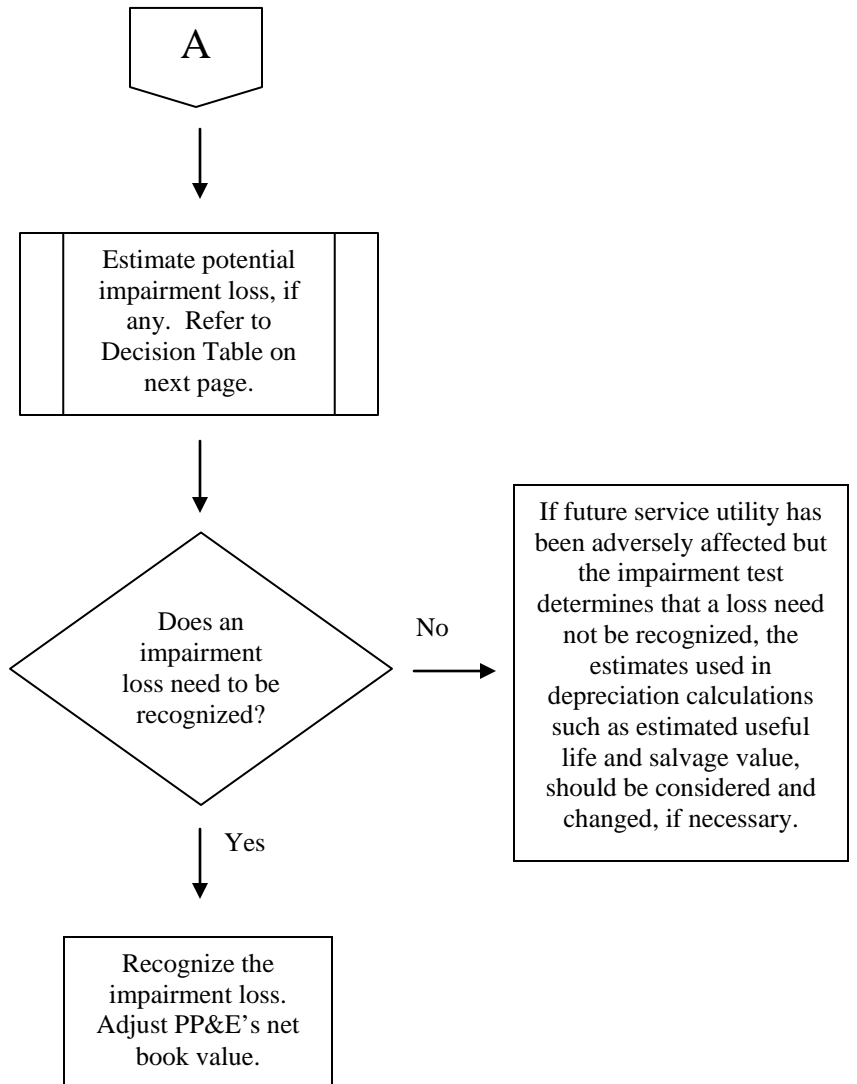
FASAB 44 provides a number of illustrations to assist in determining what treatment to follow if an impairment has been identified.

Flowchart

Step 1 – Identify Indicators

Step 2 – Impairment Test





Decision Table

Measurement Methods¹⁸	Potential Indicators	Type of PP&E *	SFFAS 44 Reference	SFFAS 44 Illustrations that may be appropriate
Replacement Approach	Physical Damage	All G-PP&E	Par. 18 a	1c
Restoration Approach	Physical Damage	Multi-use Heritage PP&E	Par. 18 b	2b
Service Units Approach	Physical Damage Enactment or approval of laws/regulations Changes in environmental or economic factors Technological changes or obsolescence	All G-PP&E	Par. 18 c	1d, 3a, 3b
Deflated Depreciated Current Cost Approach	Change in manner or duration of use.	All G-PP&E	Par. 18 d	4a
Cash Flow Approach	Any of the indicators as listed at Paragraph 12 (a through g)	Cash or Revenue Generating G-PP&E	Par. 18 e	7a, 7b, 7c, 7d
Lower of (1) Net Book value or (2) Higher of Net Realizable Value or Value-in-Use Approach	Construction stoppage / Contract terminations	All G-PP&E	Par. 17 & 18 f	5, 6a, 6b, 7b

* = excluding internal use software